

Summary of Current System

	Pillar 1	Pillar 2	Pillar 3
Type:	♦ Defined-contribution		♦ Defined-contribution or defined-benefit
Participation:	♦ Mandatory		♦ Voluntary
Management:	♦ Publicly-managed		♦ Privately-managed
Financing:	♦ PAYGO		♦ Fully-funded
Coverage:	♦ Private sector employees, self-employed farmers and fisherman		♦ Participating private employers
Eligibility:	♦ Age 60 years and 120 months of contribution		♦ 60 years of age

Challenges Facing Pension System

- ☐ Low compliance levels
- ☐ High administrative costs
- ☐ Decreasing familial support

Summary of Current Pension System

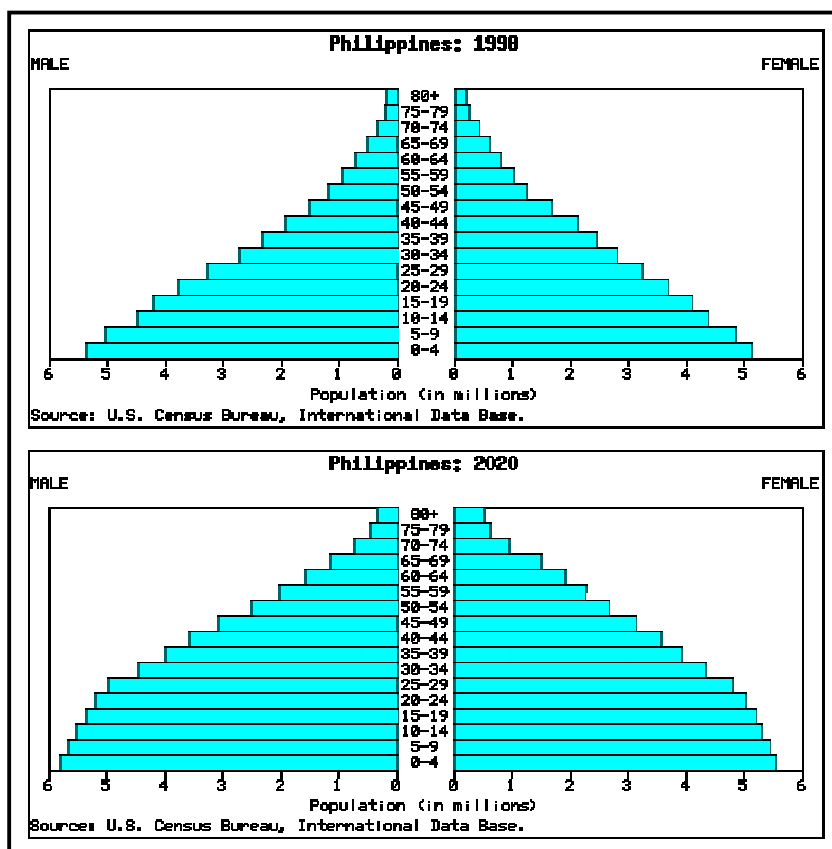
The social security system in the Philippines has two main components. Pillar I provides universal coverage under a defined-benefit scheme financed on a pay-as-you-go (PAYGO) basis. The Social Security System (SSS), implemented in 1957, provides old-age, sickness, maternity and disability and death benefits. The current system covers all private-sector employees including self-employed farmers, fishermen, and household helpers whose earnings are more than a specified monthly amount. Another pillar (Pillar III) consists of private occupational plans provided mainly by employers of large companies. A separate system, called the Government Service Insurance System (GSIS), has been established for government employee.

The SSS covers old-age pensions, disability, survivors and dependents' pensions. Contributions to the SSS are provided by both employers and employees. The contribution amount is based on 27 wage categories, where employees contribute an average of 3.33 percent of their earnings, and employers contribute about 4.67 percent of payroll. The government appropriates funds to ensure the fiscal soundness of fund.

In order to qualify for old-age benefits, individuals must meet one of the two following criteria: (1) they must be unemployed and have reached 60 years of age and contributed at least 120 months, or (2) they have reached 65 years of age and

contributed at least 120 months, whether employed or not. Individuals may continue to work after the normal retirement age, if their earnings are no more than P300 per month.

The minimum monthly pension is the greater of the following: (1) P300 plus 20 percent of the average monthly salary credit (in the last five years of service), plus 2 percent of the average monthly salary credit for each credited year in excess of 10 years; (2) P1,200 provided that the monthly pension is paid for not less than 60 months, or (3) 40 percent of the average monthly salary credit. Periodic adjustments are made based on price and wage fluctuations.



SELECTED INDICATORS		
Demographic	Year	
	1998	2020
Total Population (in thousands)	77,726	112,963
Life Expectancy at Birth (Years)	66.35	70.81
Total Fertility Rate (Child Born per Woman)	3.54	2.50
Age Dependency Ratio (percent)	9.7	13.8
	1980-2000	2000-2020
Average Annual Rate of Population Growth (percent)	2.9	2.0

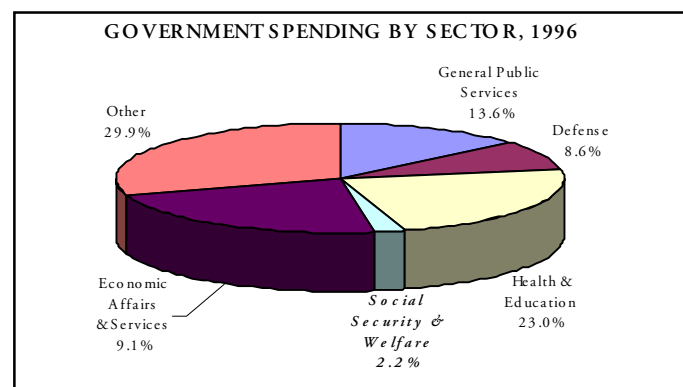
Source: U.S. Bureau of the Census. International Data Base.

Economic	1996
GNP (PPP in billions) ¹	255.2
GNP Average Annual Growth Rate, 1995-1996 (percent) ¹	6.9
GNP Per Capita (in PPP) ¹	3,550
Inflation Rate (percent) ²	8.4
Labor Force Participation Rate (percent) ³	41.5
Unemployment Rate (percent) ³	7.4

Source: ¹World Bank; ²IMF; ³International Labour Office.

Pension	1997
System Dependency Ratio, 1996 (percent)	n/a
Average Employee Payroll Tax Contributions for Pensions (percent)	3.33
Average Employer Payroll Tax Contributions for Pensions (percent)	4.67
Public Pension Spending as % of Government Spending	n/a
Public Pension Spending as % of GDP, 1996 (percent)	n/a

Source: U.S. Social Security Administration.



Source: International Monetary Fund. Government Finance Statistics Yearbook, 1997.

Private occupational or employee pension plans complement the SSS. Generally, employers offer both defined-benefit and defined-contribution pension schemes. The most common retirement benefit is lump-sum, calculated to provide benefits of approximately 1.5 times an employee's final salary times the number of years of service. The retirement age is 60 years, to coincide with the SSS. Private pension plans have vesting provisions, usually occurring after 20 years of service. Many of these pension plans are non-contributory. Financing of the benefit is made through either a trust or an insurance policy. Fund investments are not subject to any limitations, except restrictions against overseas investments.

A provident fund called the Home Development Mutual Fund was established in 1979. It is intended to provide additional savings and promote home ownership. Membership into the fund is mandatory for middle-to-high income individuals (who

are at least P4,000 per month) in the public and private sectors. Voluntary membership is extended to lower income employees, the self-employed and overseas workers. Members are entitled to loans for housing and housing-related improvements. Contributions are 1 percent of wages for those earning up to P1,500 per month and 2 percent of earning between P1,500 and P5,000 per month. Employers and self-employed pay 2 percent. Accumulated contributions plus accrued interest may be withdrawn upon maturity after 20 years' membership.

Challenges Facing Pension System

About one-fourth of the total labor force, or 16.6 million individuals, participated in the SSS in 1995. However due to non-compliance of employers and employees, the SSS is estimated to cover less than 10 percent of the labor force. The compliance rate is estimated to be between 40 and 60 percent among employers.

The system's high administrative costs are also of concern. In 1995, the administrative expenses to contributions ratio was 8.9 percent, compared to 2.0 percent in Malaysia and 0.5 percent in Singapore. Another challenge facing the pension system in the Philippines and other Asian countries is decrease in the number of families providing financial support for their elderly parents, as the country becomes more industrialized and urbanized. This will place more pressure on the pension system to adequately cover the elderly.

Pension Reform Efforts

In 1996, the Department of Finance introduced a proposal that would privatize the SSS and the GSIS. To date, no further action has been taken. Recently, the Philippine Chamber of Commerce and Industry proposed a bill on establishing retirement funds that are similar to the United States' Individual Retirement Account (IRA) Law. Opening an IRA would be voluntary for those wishing to have added security in their retirement years.

Pension Reform Efforts by Pillar

	Pillar 1	Pillar 2	Pillar 3
Papers issued on state of pension systems			✓
Formulation of proposals			✓
Development of draft legislation			
Introduction of legislation by parliament			
Review of legislation by parliament			
Passage of legislation by parliament			
Implementation of legislation			